

Message Text

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ORIGIN FRB-03

INFO OCT-01 EUR-12 ISO-00 /016 R

DRAFTED BY: NORMAND BERNARD, FED RES

APPROVED BY:EUR/WE: W H MARSH

DESIRED DISTRIBUTION NONE

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P 182243Z DEC 75

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C O N F I D E N T I A L STATE 298342

E.O. 11652: GDS

FOR THE HONORABL ARTHUR F BURNS, CHAIRMAN FEDERAL RESERVE BOARD

MR. PARTEE'S APPEARANCE TODAY BEFORE THE SENATE BANKING COMMITTEE WENT EXTREMELY WELL. SENATOR PROXIMIRE SAID HE WAS AS QUALIFIED FOR THE POSITION AS ANY CANDIDATE WHO HAS COME BEFORE THE COMMITTEE. PROXIMIRE, WHO HAD RECEIVED THE PROXIES OF MANY COMMITTEE MEMBERS, REPORTED THE NOMINATION OUT OF COMMITTEE AND TO THE SENATE FLOOR WHERE FINAL APPROVAL IS EXPECTED LATER TODAY OR TOMORROW.

THE HOUSE VOTED THIS MORNING TO SUSTAIN THE PRESIDENT'S VETO OF THE TAX CUT EXTENSION BILL. THE FINAL VOTE WAS 265 TO 157 IN FAVOR OF THE BILL OR 17 VOTES SHY OF THE TWO-THIRDS NEEDED TO OVERRIDE THE VETO. MR. ULLMAN TOLD REPORTERS AFTER THE VOTE THAT HE SEES NO WAY TO PREVENT THE HIGHER TAX WITHOLDING FROM GOING INTO EFFECT ON JANUARY 1.

RETAIL SALES, SEASONALLY ADJUSTED, IN THE WEEK ENDED DECEMBER 13 WERE OFF ONE-HALF PER CENT FROM SALES IN THE PRECEDING WEEK. THE DECLINE WAS CONCENTRATED IN SALES AT NONDURABLE GOODS STORES, WHICH WERE DOWN NEARLY 2 PER CENT, WHILE SALES AT DURABLE GOODS STORES ROSE BY THE SAME PERCENTAGE. IN THE FOUR WEEKS ENDED LAST SATURDAY, TOTAL RETAIL SALES WERE ABOUT UNCHANGED FROM THE PRECEDING FOUR WEEKS, WITH A RISE IN SALES AT DURABLE GOODS STORES ABOUT OFF SETTING A DECLINE AT NONDURABLE GOODS STORES. AS COMPARED WITH A YEAR EARLIER. TOTAL SALES IN THE MOST RECENT
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WEEK AND IN THE MOST RECENT FOUR WEEKS WERE 15 PER CENT OR MORE

ABOVE THOSE A YEAR EARLIER, WITH SALES AT DURABLE GOODS STORES UP MORE THAN A FOURTH AND AT NONDURABLE GOODS STORES A TENTH OR MORE.

MARGIN CREDIT EXTENDED BY BROKERS AND DEALERS ROSE DOLS70 MILLION DURING NOVEMBER--THE FOURTH CONSECUTIVE MONTHLY INCREASE. THIS INCREASE LIFTED MARGIN DEBT OUTSTANDING AT THE END OF NOVEMBER TO DOLS5,370 MILLION--THE HIGHEST LEVEL IN OVER 19 MONTHS. THE QUALITY OF MARGIN CREDIT, AS MEASURED BY THE PROPORTION OF MARGIN DEBT IN ACCOUNTS WITH LESS THAN 40 PERCENT NET EQUITY--REGISTERED ANOTHER SLIGHT IMPROVEMENT DURING NOVEMBER. CORPORATE PROFITS BEFORE TAXES IN THE THIRD QUARTER OF THIS YEAR WERE DOLS134.6 BILLION, SEASONALLY ADJUSTED ANNUAL RATE, ACCORDING TO REVISED ESTIMATES (PUBLISHED BASIS RATHER THAN NEW BENCHMARK REVISION BASIS WHICH HAS NOT BEEN RELEASED), SLIGHTLY HIGHER THAN INDICATED BY THE PRELIMINARY ESTIMATES AND UP DOLS 21.3 BILLION (OR 18.8 PER CENT) FROM PROFITS IN THE SECOND QUARTER. EXCLUDING INVENTORY PROFITS, WHICH WERE UP A LITTLE FROM THE SECOND QUARTER, PROFITS WERE DOLS123.0 BILLION, ANNUAL RATE, DOLS18.1 BILLION (OR 17.5 PER CENT) ABOVE THE SECOND QUARTER. MORE THAN HALF THE THIRD QUARTER GAIN IN PROFITS EXCLUDING INVENTORY GAINS WAS IN MANUFACTURING AND LARGELY IN NONDURABLE GOODS INDUSTRIES.

IN DOMESTIC SECURITIES MARKETS, TREASURY OBLIGATIONS WERE LITTLE CHANGED DURING MOST OF THE DAY BUT PRICES ROSE AFTER THE ANNOUNCEMENT OF A DOLS3.0 BILLION DECLINE IN M-1 FOR THE WEEK ENDED DECEMBER 10. THE 3-MONTH TREASURY BILL WAS TRADING AT ROUND 5.40 PER CENT LATE IN THE DAY. STOCK PRICES ROSE SOMEWHAT, WITH THE DOW JONES INDUSTRIALS ADVANCING 5.82 POINTS TO A LEVEL OF ABOUT 852. FEDERAL FUNDS TRADED AT AN EFFECTIVE RATE OF 5.20 PER CENT. THE DESK PROVIDED SOME DOLS750 MILLION OF RESERVES, MAINLY THROUGH BILL PURCHASES IN THE MARKET.

LATEST ESTIMATES SUGGEST AN INCREASE IN M-1 ON THE ORDER OF 2-3/4 PER CENT ANNUAL RATE FOR DECEMBER-JANUARY AND AN INCREASE IN M-2 OF 7-1/2 PER CENT FOR THIS PERIOD. THESE ESTIMATES INCORPORATE THE NEW SEASONALS.

THE WEIGHTED AVERAGE VALUE OF THE DOLLAR WAS UNCHANGED TODAY IN VERY QUIET TRADING. THE SYSTEM BROUGHT DOLS1MILLION EQUIVALENT OF BELGIAN FRANCS THROUGH THE BIS FOR SWAP REPAYMENT. AT THE SUGGESTION OF THE SWISS NATIONAL BANK, THE SYSTEM BOUGHT ITALIAN LIRA AND JAPANESE YEN, WHICH THE SYSTEM THEN SOLD TO THE BNS IN CONFIDENTIAL

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RETURN FOR DOLS4.6 MILLION EQUIVALENT OF SWISS FRANCS. EURO-DOLLAR RATES ROSE SLIGHTLY. THE GOLD PRICE IS DOLS138.90, UP 5 CENTS. THE BUNDESBANK HAS ANNOUNCED A TARGET OF 8 PER CENT FOR THE AVERAGE GROWTH IN THE CENTRAL BANK MONEY STOCK IN 1976 COMPARED TO THE AVERAGE LEVEL IN 1975. KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: US CONGRESSIONAL HEARINGS, TAX REFORMS
Control Number: n/a
Copy: SINGLE
Draft Date: 18 DEC 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE298342
Document Source: CORE
Document Unique ID: 00
Drafter: NORMAND BERNARD, FED RES
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750440-0919
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751230/aaaabagy.tel
Line Count: 112
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN FRB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 28 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <28 MAY 2003 by MartinML>; APPROVED <06 OCT 2003 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PARTEE APPEARS BEFORE SENATE BANKING COMMITTEE
TAGS: EFIN, (PROXMIRE, WILLIAM), (PARTEE)
To: PARIS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006